

I N S I D E T H E M I N D S

The Impact of Recent Patent Law Cases and Developments

*Leading Lawyers on Analyzing Key Decisions,
Updating Client Strategies, and Understanding
the Effects of Patent Reform*

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Revising Patent Law Strategies
in the Wake of Recent
Supreme Court Decisions,
Patent Litigation
Developments, and
Patent Reform

Tim Tingkang Xia, Ph.D.

Partner

Morris Manning & Martin LLP



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Introduction

As recent developments illustrate, the patent law landscape is more turbulent than ever. Particularly, the Supreme Court has taken on more patent law cases in the last two or three years than in recent memory, a new patent legislation bill (the America Invents Act) was passed and will be signed into law in the near future, large technology and mobile device companies are doing battle over the size and strengths of their intellectual property portfolios, and suits by so-called “patent trolls” are biting companies big and small. All of these events lead to a heightened importance for companies to develop effective patent law strategies, file more patents, and build expansive and targeted patent portfolios.

Patent Trolls, Patent Wars, and Other Trends in Patent Law

Some of the major trends and developments in the field of patent law in recent times include the following.

First, there is the increase (or at least perceived increase) in the number of suits being filed and pursued by so-called “patent trolls” or “non-practicing entities,” which are groups that essentially buy patents and then assert them against potentially infringing companies in the hopes of obtaining licensing fees. It seems that many investment groups are realizing that the patent troll business model is a viable one, and these types of suits seem to be on the rise.

The impact of this trend is that we are counseling our clients that it is more important than ever to seek patents, if for no other reason than to have bargaining chips if sued by a troll. Also, clients are being more cautious in terms of new business areas they intend to pursue, and we have seen an increased significance placed on patent searching and investigation.

Second is the “mobile patent wars.” Google recently purchased Motorola Mobility, primarily because of Motorola’s extensive patent portfolio. Other large mobile device makers, such as Apple, RIM, Nokia, and others, have been battling it out for the last few years to assert dominance in this arena. A recent article by one of the lead counsels in the Apple-Nokia spat indicated that one of the primary reasons Apple eventually caved was the sheer size and strength of Nokia’s patent portfolio.

Again, the practical impact of these mobile patent wars is that it is becoming more important to build large war chests of patents, especially for clients in the wireless, telecommunications, or mobile device spaces.

Third is the passage of the America Invents Act, and the first-to-file provisions and revisions to the prior art provisions contained therein. At the time of this writing, the act has been passed by the House and Senate, and is awaiting final approval by President Obama. When this bill is signed into law, it will create a fundamental shift in how priority rights are determined. The legislation includes other provisions as well, but the first-to-file and the prior art provisions seem to be the most impactful.

The first-to-file amendment essentially changes the United States from a first-to-invent country to a first-to-file country. This would seem to be an attempt to harmonize the United States with the rest of the world in this regard, and essentially grants rights to the first inventor to file, rather than the first inventor to invent (which was the prior law). The amendments to the prior art laws (i.e., 35 U.S.C. § 102) will essentially do away with the grace period for filers in the United States, but includes some provisions to soften the blow (i.e., disclosures by the inventor himself or herself may not hurt the inventor).

The practical impact of this proposed legislation is that we are counseling our clients that they should file patents sooner rather than later to avoid a situation in which someone else beats them to the filing punch. Therefore, we might see a slight uptick in provisional patent filings, and patent filings in general. On the downside, this could result in lower-quality patent applications being filed (especially in the form of provisional applications), as applicants may be inclined to rush through the patent process.

Fourth on the list is that the status of computer-implemented technologies and business method patents remains in limbo after the decision in *Bilski v. Kappos*, 130 S. Ct. 3218 (U.S. 2010). The *Bilski* decision was supposed to shed light on the patentability of certain business method patents (and, we hoped, software and computer-implemented process patents), but the decision essentially just said that these types of process patents are allowable if they are not too “abstract.” In the end, the *Bilski* decision (and its progeny) did little to clarify the patentability standard for these types of subject matters.

Practically, we are counseling our clients that they should continue to pursue patents in this area unless and until the Supreme Court or Federal Circuit explicitly declares this subject matter as not patent-eligible. If our clients wait on the sidelines, under some assumption that these types of patents will ultimately be held invalid, they could be caught at a serious disadvantage if that scenario never comes to bear.

Factors Driving Today's Patent Cases

The driving factors behind many of today's patent litigation cases include the rise of non-practicing entities and the large number of suits they bring, the poor economy (clients are more inclined to try to protect what they have or find alternate revenue streams in the form of patent infringement "wins"), the perceived next generation of valuable technology areas (e.g., the mobile patent wars), and others.

Non-practicing entity cases are fought in a different way in comparison to traditional patent cases, as non-practicing entities really only care about obtaining a license or other monetary award from a potential defendant (i.e., they are not competitive with the defendant, so they are not interested in crippling their business, and in fact, it is beneficial to the non-practicing entity from a royalty standpoint if the defendant's business thrives). Essentially, these foes cannot be treated as competitors or a typical business with rational motives, as they are only after money and will stop at very little to get it. Thus, defendants are forced to either settle these suits quickly, or fight them to the end (there is usually no room for a business agreement). Also, non-practicing entities are not worried about bad press, so the overall nature and tenor of the suit changes.

With respect to the mobile war cases, the suits tend to focus on large issues, such as the overall size and strength of portfolios, and less on the minutia or potency of individual patents or patent families. Thus, the resulting litigation tends to be a test of stamina, persistence, and will, and not necessarily the strength of legal arguments or good lawyering.

The Impact of Patent Litigation on Technology Industries

Mobile technologies (e.g., smartphones), computer-related and software industries, and large technology companies (e.g., Microsoft, Google, IBM)

are among those industries most greatly affected by recent trends in patent litigation.

Mobile technologies are affected simply because that industry is seen as a hot space right now, and one that is highly dependent upon a specific product (e.g., a phone). Computer-related industries are greatly impacted due to *Bilski v. Kappos* and its direct effect on how software claims are written, and whether software- and computer-related patents will ultimately be held invalid. Specifically, the perceived requirement (at least for now) that computer/software technologies include a “machine” or a “transformation” has necessitated the recitation of specific computers or computer components in claims. This could, theoretically, impact whether certain patents may apply to the “virtual” or “cloud computer” spaces.

Further, large technology companies are often the target of patent trolls (and lawsuits by many smaller companies or “one-offs”) that want to target the deep pockets of these established technology giants. For example, Microsoft has been involved in four of the top ten patent suits (in terms of total damage awards) in the past ten years.

Again, these developments highlight the need to (i) build the size of patent portfolios, even for marginal technologies, (ii) conduct patent searches and investigations before entering new spaces or product lines, and (iii) assess the opponent in a lawsuit and the opponent’s perceived motives before traveling too far down the litigation road.

The *Bilski* Decision

The *Bilski v. Kappos* decision, as discussed above, was one of the most highly anticipated patent law cases of recent times, as it has had the greatest impact on patent eligibility in recent years. Again, it affects business method, computer-implemented, and software patents, and whether those types of subject matters are patent-eligible. *Bilski* is important because it could dramatically affect how computer-implemented patents are examined, viewed, prosecuted, and whether they are ultimately valid. For now, the impact seems minimal—the US Patent and Trademark Office has essentially adopted the “machine-or-transformation” test, and as long as the active steps in method claims recite a “computer,” “processor,” or other

“machine” component, the Patent and Trademark Office’s stance is that the claims are valid. Of course, depending on cases subsequent to *Bilski*, this could dramatically change.

In light of the *Bilski* decision, it is important that your clients understand that their claims must show a tie to a “particular machine” (or a transformation, but that is more difficult to show). *Bilski* did not explicitly endorse the machine-or-transformation test as the *only* test, and in fact said that it was but one test that could be used to determine patent eligibility. However, the Supreme Court offered no other viable test. Without a machine or transformation, it is highly likely that the claims will be deemed unpatentable subject matter by the Patent and Trademark Office or the courts. Practically, for computer software inventions, this means including a tie to a computer or computer components in every claim element recited in the method claims (assuming that claim element is indeed performed via a computer). Whether this includes virtual computing environments, such as virtual databases, cloud computing systems, virtual networks, or the like, remains to be seen, but the general consensus seems to be yes.

For those clients in the computer/software space, eligibility is a threshold issue relating to whether they will be able to secure a patent. Ultimately, *Bilski* may curtail “true” business method cases, but for software and other computer-implemented inventions, it likely will have little impact on the number of applications, but will merely change the way those cases are written (i.e., reciting a specific “computer” in the claims).

The *Stanford* Decision

Another important case in this area is *Stanford v. Roche*, 1331 S. Ct. 2188 (U.S. 2011). In this case, the Supreme Court essentially stated that a federally funded contractor does not necessarily own the patent rights to inventions resulting from funded projects. Here, the majority, led by Chief Justice Roberts, held that US patent rights have essentially always initially vested in “the inventor,” and that the non-specific language of the Bayh-Dole Act (which gave universities, small businesses, and non-profits intellectual property control of their inventions resulting from government-funded research) does nothing to change the original setup.

This case involved a Stanford researcher who was under a prior contractual duty to assign invention rights to Stanford. However, the researcher actually assigned rights to another company, Cetus. When Stanford sued Roche (Cetus's successor in interest) for patent infringement, Roche's defense was that a co-owner could not be held liable for patent infringement.

At the Supreme Court, Stanford argued that the contractual rights did not matter, and instead that its statutory right to “elect to retain title...[in] any invention of the contractor” conceived or reduced to practice under a federally funded agreement gave it precedence over Cetus. The court rejected Stanford's argument as both against the tradition of patent law and not in line with the statute. The court stated:

Stanford's reading of [the statute] is plausible enough in the abstract; it is often the case that whatever an employee produces in the course of his employment belongs to his employer. No one would claim that an autoworker who builds a car while working in a factory owns that car. But, as noted, patent law has always been different: We have rejected the idea that mere employment is sufficient to vest title to an employee's invention in the employer. Against this background, a contractor's invention—an ‘invention of the contractor’—does not automatically include inventions made by the contractor's employees.

The Stanford case affects how universities contract with their contractors, professors, employees, and others. It highlights the need to sure up employment and contractor agreements up front, and include outright assignments of invention rights in such agreements (and not merely agree to assign those rights in the future).

The *Microsoft* Patent Protection Case

Another case that has affected the patent landscape is *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238 (U.S. 2011). In this case, Microsoft challenged the strength of the presumption that patents are “presumed valid” (35 U.S.C. § 282), arguing that a low “preponderance” standard for proving invalidity should be sufficient rather than the higher “clear and convincing”

standard required by the Court of Appeals for the Federal Circuit. The Supreme Court did not agree. The court stated: “We consider whether § 282 requires an invalidity defense to be proved by clear and convincing evidence. We hold that it does.”

This case is largely seen as a pro-patent decision, and it has confirmed the overall strength of patents. In a somewhat volatile patent climate, this decision (at least from a patent prosecutor perspective) is a breath of fresh air. This case essentially serves to strengthen existing validity presumption laws, and makes it harder to invalidate issued patents.

The true impact of this decision is yet to be seen, but it is assumed that invalidity arguments may now take a back seat (or at least be examined more closely) as compared to non-infringement or other arguments.

Responding to Changing Client Needs in the Patent Law Area

Most of my clients fall into two primary categories: Chinese companies (or companies with significant Chinese connections) and large, research-based universities. These clients operate in many different technology areas, including computer-implemented technologies, nano-science, manufacturing, research laboratories, and others.

These demographics have not changed much in the past year or two, but they have changed a great deal since I began practicing. Primarily, the rise in China’s economy has opened up a wealth of new opportunities in that country, and thus the number and significance of the Chinese clients I represent has grown substantially.

Most of our clients are on the defensive end (i.e., getting sued, either by non-practicing entities or by competitors). However, it seems that clients are generally more willing to bring and defend suits in troubled economic times under the auspice of “protecting what is mine.” Of course, this impulse must be balanced with the cost of the patent suit. Thus, clients are more willing to bring suits and defend them, but are being more conscious about the cost and effectiveness of the suits.

Companies also seem more willing to accept narrower, more tightly focused patents, but they are pursuing them in greater numbers. I suspect this is in part

due to recent activity in the past several years among Google, IBM, Nokia, Apple, and others in terms of acquiring large patent portfolios, and using those patent portfolios offensively (and defensively against non-practicing entities). Patent suits nowadays often tend to focus around the overall strength of a patent portfolio, and parties to the suit will use patents as bargaining chips to work towards settlement (such as in the recent Apple-Nokia spat).

Based on these developments, we now typically (i) encourage our clients to file patents sooner rather than later, (ii) encourage our clients to file several, more tightly focused patent applications to build a “web” or “thicket” of patents around a given technology (and not just a one-off type of patent), and (iii) encourage our clients to build a portfolio of patents, if for no other reason than to create the guise of a strong patent war chest (for purposes of litigation, acquisition, investment, licensing, or the like). To update our strategies and clients, we often consult patent blogs, treatises, practice books, and articles by other attorneys in the field.

The Importance of Seeking Legal Counsel

When clients are uncertain as to the impact of recent patent cases on their own patent strategies, they should consult their patent attorneys. Of course, it is always a good idea from a cost perspective to first consult the Internet and other resources (e.g., blogs, scholarly articles, etc.) to get a background understanding, but a brief call with a patent attorney is usually the easiest way to get guidance.

It is always a good time to seek legal assistance when there are significant, pressing questions regarding patent law issues. In terms of pursuing new patents, I always recommend that our clients consult me or another member of our team during the product development process (and not after the product has been fully developed or after a product launch). This way, we can be sure to create a filing strategy before any patentability bars come into play.

Monitoring the state of the art and what competitors are doing is a major way for clients to protect their patent rights. If a potential infringement is uncovered, investigation should occur to determine whether there is a colorable argument of such infringement. If so, a cease-and-desist letter, potentially followed by a patent infringement suit, is appropriate.

Dealing with Complex Patent Law Decisions

The *Stanford v. Roche* case is somewhat complicated based on the implication of the Bayh-Dole Act. The case subject matter is not overly complicated, but reconciling the patent validity laws and the Bayh-Dole provisions is somewhat challenging. The end result of the case is simply that universities, research organizations, start-up companies, and other entities with government funding should be sure to obtain appropriate patent assignments up front (at the time of patent application filing or before) to avoid subsequent losses of rights.

The *Bilski* case is also complex due to the large number of issues addressed within that case, and their overall impact on patentable subject matter. The impact of this case is really yet to be seen in practice, but for now, the safest route is simply to add some “machine-like” language to the claims, or attempt to find a transformation that can be claimed.

To deal with these complications, attorneys should simply try to keep the cases and their impact boiled down to the most basic and fundamental issues, and not get too caught up in the concurring opinions, ancillary issues, dicta, and so on. Common mistakes in dealing with these cases (particular *Bilski*) are that attorneys try to stretch the limits of a “transformation” or get too complicated with “machine” recitations. Generally, based on experience with patent examiners, it seems that very simplistic “computer” recitations will do.

Fortunately, as we know, most patent cases settle, and complicated cases are no different. In fact, when large, complicated cases arise, the chances for settlement are often increased because neither party wants to fight it out to the end.

The Future of US Patent Litigation

Issues that will probably have the greatest influence on the future of US patent law include the pending patent legislation (the America Invents Act) and all of the fallout from the first-to-file and prior art provisions, as well as the post-grant review issues, attacks on business process patents, and so on. Also, the *Stanford v. Roche* case will have a large impact on many of my university clients, as they may need to revamp their entire agreement

structures with researchers, professors, and the like to be sure ownership issues are clear and unambiguous.

However, these developments will probably not affect patent law outside of the United States. In fact, one of the primary reasons for the new patent legislation is to bring the United States more in line with the rest of the world (as most other countries utilize a first-to-file system).

I believe that as long as the economy continues to decline or stay troubled, the number of patent suits will likely continue to rise. The increase in non-practicing entities also has a great effect on this trend. In terms of prosecution, all of the above factors relating to computer-implemented cases will likely continue to pervade patent law considerations for years to come.

To prepare for these trends, clients should continue to build patent portfolios, create webs or thickets of patents around technologies, and remain up to date on current developments in patent law. Again, there is an increased need to strengthen the size of current patent portfolios, both for offensive and defensive purposes.

Lawyers should stay up to date on the latest issues by reading blogs and articles by other attorneys, and by attending continuing legal education courses. Finally, lawyers who are new to this practice should seek a good mentor who can guide you through difficult issues and teach you the ways of a strong practice.

Conclusion

As recent developments illustrate, the patent law landscape is more turbulent than ever. Particularly, the Supreme Court has taken on more patent law cases in the last two or three years than in recent memory, a new patent legislation bill (the America Invents Act) will be signed into law in the near future, large technology and mobile device companies are doing battle over the size and strength of their intellectual property portfolios, and suits by so-called patent trolls are biting companies big and small. All of these events lead to a heightened importance for companies to develop effective patent law strategies, file more patents, and build expansive and targeted patent portfolios.

Key Takeaways

- Advise clients that it is important to build large war chests of patents, and file several tightly focused patent applications to build a web or thicket of patents around a given technology.
- Inform clients that they should file patents sooner rather than later to avoid a situation in which someone else beats them to the filing punch, should the first-to-file patent reform legislation pass Congress.
- Counsel clients that they should continue to pursue patents in the business methods area unless and until the Supreme Court or Federal Circuit explicitly declares this subject matter as not patent-eligible.
- Recommend that clients consult an attorney during the product development process, and not after the product has been fully developed. This way, they can be sure to create a filing strategy before any patentability bars come into play.
- Stay up to date on the latest patent law issues by reading blogs and articles by other attorneys, and by attending continuing legal education courses. Also, seek a good mentor who can guide you through difficult issues and teach you the ways of a strong practice.

Related Resource

- Dennis Crouch's patent blog (www.patentlyo.com) is a very good resource and provides helpful summaries of recent patent law developments.

Tim Tingkang Xia, Ph.D. is a senior partner and chair of the Intellectual Property Practice and International Practice for Morris Manning & Martin LLP. He is also a member of the firm's Management Committee. He counsels clients in all phases of intellectual property law, including US and foreign patent, trademark, and copyright prosecution, clearance, infringements, validity opinions, and licensing. His focus is primarily on patent prosecution and litigation in a variety of areas, including telecommunications, optics, mechanical and electronic devices, nanotechnologies, liquid crystal display devices, MEMS devices, lasers, quantum spin devices, semiconductors, biotechnologies, and various medical devices. He has prepared and prosecuted more than

two thousand patent applications. He also has a broad range of experience nationally and internationally in the arena of intellectual property litigation, including patent, trademark, trade dress, copyright, and trade secret matters. He has been recognized as a member of the “Legal Elite,” a “Super Lawyer,” and a Chambers USA “America’s Leading Lawyer.”

Dr. Xia earned his J.D. from Columbia University School of Law, where he was designated as a Harlan Fiske Stone Scholar and executive editor of the Columbia Journal of Asian Law. Prior to his legal career, he was a physicist specializing in supercomputing, large-scale computer simulation of complex fluids, super-thin films of polymers, and Josephson junction superconducting arrays, electromagnetic properties of high-temperature superconductors, and physics of granular metals. He has published his research results and discoveries in a variety of internationally leading academic research journals. He graduated from Peking University with a B.S. in physics, and he earned his Ph.D. in physics from the Ohio State University.

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Daniel E. Sineway is a senior associate in Morris, Manning & Martin’s Intellectual Property Practice and is a registered patent attorney. He practices in all areas of intellectual property law, including patent prosecution, trademark prosecution, copyright, and trade secret. He has extensive experience preparing and prosecuting patent and trademark applications, managing national and international intellectual property portfolios, formulating patent and intellectual property strategies, and rendering opinions. He often works with emerging and start-up companies to help develop their overall intellectual property strategies and portfolios. His practice focuses primarily on technology businesses, including those in the fields of computer software and computer-implemented technologies, electronic commerce and payment systems, social media technologies, electronic medical records and health care systems, network security, green technologies, and others. He also has extensive experience representing clients in the fields of manufacturing, medical devices, electromechanical technologies, nanotechnologies, and power management systems.

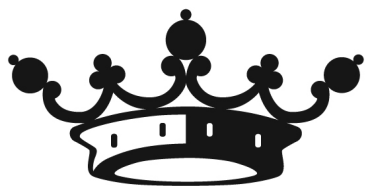
Mr. Sineway graduated with highest honors from the Georgia Institute of Technology with a degree in mechanical engineering. While attending the University of Georgia School of Law, he was on the editorial board and served as an articles editor for the Georgia Law Review. He is a frequent speaker and author on all issues relating to intellectual property.



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